

# BRAMWELL BROWN LTD

INVESTMENT ADVISERS – BROKERS

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## **Bramwell Brown Limited – Newsletter – Christmas 2015**

### **2015 Review**

I have looked back at what I wrote in the newsletter this time last year, and I could almost copy and paste it into this one. I mentioned falling interest rates, the good performance of the New Zealand share market and the corresponding poor performance of the Australian market. This year has followed a similar theme. The Official Cash Rate has reduced by 1% since December 2014; down again to its lowest ever level of 2.50%. It seems like yesterday it was at 8.50%. Here are some of the main points from Graeme Wheeler's most recent address earlier this month:

Globally, economic growth is below average and inflation is low, despite highly stimulatory monetary conditions. Financial markets remain concerned about weaker growth in emerging economies, particularly in China. Growth in the New Zealand economy has softened over 2015, due mainly to lower terms of trade. The New Zealand dollar has risen since August, partly reversing the depreciation that occurred from April. The rise in the exchange rate is unhelpful and further depreciation would be appropriate in order to support sustainable growth.

House price inflation in Auckland remains high, posing a financial stability risk. Residential building is accelerating, and recent tax and LVR measures are expected to reduce housing pressures. There are some early signs that Auckland house price inflation may be moderating. CPI inflation is below the 1 to 3 percent target range, mainly due to the earlier strength in the New Zealand dollar and the 65 percent fall in world oil prices since mid-2014. The inflation rate is expected to move inside the target range from early 2016, as earlier petrol price declines will drop out of the annual calculation, and the lower New Zealand dollar will be reflected in higher tradables prices.

There are a number of uncertainties and risks to this outlook. In the primary sector, there are risks that dairy prices remain weak for longer, and the current El Niño results in drought conditions and weaker output. Monetary policy needs to be accommodative to help ensure that future average inflation settles near the middle of the target range. We expect to achieve this at current interest rate settings, although the Bank will reduce rates if circumstances warrant. We will continue to watch closely the emerging flow of economic data.

Fixed interest investors will not be pleased when they read the last two sentences, indicating further reductions in interest rates are possible. Low interest rates are putting pressure on those who rely heavily on fixed interest for their income. I've written previously regarding the options available – spend less, take more risk, or eat your capital. My advice to anyone facing a diminishing income is first and foremost to recognise and monitor your situation. Record your income and expenditure and know exactly what the difference is. Armed with that information you're in a position (with help from me) to predict what effect this will have on your capital position over time.

The NZX50 Index has climbed another 10% throughout the year, following increases of 17%, 18% and 22% over the previous three years respectively. My prediction for the New Zealand market this time last year when asked by a client was a 5% increase and I'm happy to have been proved wrong. For how much longer will this trend continue? The Australian market has had a poor year, dropping more than 5%. There was a major sell-off in mid-August following concerns around global growth, and China in particular. The mining and energy stocks have taken a pasting, and BHP has been particularly hard hit following the disaster in Brazil. Bank stocks were also hit as new regulations demanded banks hold higher levels of capital.

What do we do with all this data? How does it guide our future decision-making? I will reiterate what I said last year – as long as interest rates remain low I believe share prices will continue their rising trend. The caveat though, is that a single event (e.g.: war, natural disaster, sovereign default) can see markets tumble overnight. Investors should continually review their holdings and question whether the level of risk they are taking matches their goals, and their ability to deal with loss. If your investment in shares has increased 30% in the last five years is it time to bank some profits? Ask yourself how you would feel after a 20% drop in share prices.

### **Office Hours**

We will be closing over the Christmas and New Year Period. The office will be closed on Thursday December 24<sup>th</sup> and will reopen on Monday January 11<sup>th</sup>. I will be in the office briefly each morning so don't hesitate to ring and make an appointment if you need to see me. When I'm not in the office the phone will divert to home – please don't hesitate to ring at any time.

I would like to thank all clients of Bramwell Brown Limited for their ongoing support throughout the year. I hope you enjoy a relaxing holiday period, and I look forward to helping you with your investment decisions in 2016.

**DISCLOSURE STATEMENT AVAILABLE ON REQUEST AND FREE OF CHARGE**